July 11, 2023

# Conneqt Business Solutions Limited: [ICRA]A+/[ICRA]A1+; continue on Rating Watch with Developing Implications; rated amount enhanced

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| **Long-term fund-based working capital** | 55.00 | 80.00 | [ICRA]A+; continue on Rating Watch with Developing Implications; assigned for enhanced amount |
| **Long-term/short-term – Non-fund based working capital** | 77.00 | 92.00 | [ICRA]A+; continue on Rating Watch with Developing Implications; assigned for enhanced amount/ [ICRA]A1+; continue on Rating Watch with Developing Implications; assigned for enhanced amount |
| **Total** | **132.00** | **172.00** | |

*Note: Amounts in Rs. Crore; *Instrument details are provided in Annexure-I*

## Rationale

The ratings continue to be on Watch with Developing Implications, given the ongoing merger between Conneqt Business Solutions Limited (ConneQt) and Quess Corp Limited (QCL; rated [ICRA]AA (Stable)/[ICRA]A1+), the parent company of ConneQt. The ratings were placed on Watch with Developing Implications following an announcement in June 2022 that the board of directors of Allsec Technologies Limited (ATL), a material subsidiary of ConneQt and QCL, had approved the scheme of amalgamation to merge ATL into QCL and to monitor its potential impact on ConneQt's business and financial profiles. Subsequently, on December 23, 2022, QCL announced that the scheme of amalgamation of ATL has been withdrawn due to change in the market scenario. At present, ConneQt holds 73.39% paid-up equity shares of ATL. Post the ongoing amalgamation of Conneqt with QCL, QCL will hold 73.39% paid-up equity shares of ATL. ICRA will continue to monitor developments regarding this ongoing merger of ConneQt with QCL and take appropriate rating action, as required.

The ratings continue to consider ConneQt's strong parentage and associated operational synergies with QCL, which holds a 100% stake in the company, providing ConneQt with incremental opportunity to diversify its client base and revenue growth. The ratings reflect ICRA's expectations that the firm will continue to benefit from its proven operational track record in the information technology business process outsourcing (IT-BPO) industry with its established relationships with customers.

ConneQt's revenues grew by 24.5% in FY2023, supported by increase in business volume from new and existing customers. While revenues from the BFSI segment continue to be the company's mainstay, it has also acquired new clients in FY2023, comprising few new age companies, thereby providing healthy medium-term revenue visibility. During FY2024, ConneQt is expected to post a steady growth in its revenues along with stable OPMs. The Total Debt (excluding lease liability) to OPBTIDA remained consistently low at 0.01 times as of March 31, 2023, similar to March 31, 2022. The ratings also favourably factor in ConneQt's comfortable debt indicators, reflected in low net gearing of 0.2 times as on March 31, 2023, and interest coverage of 9.1 times.

The ratings are, however, constrained by the company's exposure to risks associated with the IT-BPO sector such as wage inflation, high attrition rates and costs associated with hiring, training, and retaining talent. Also, the use of Artificial Intelligence tools, digitisation and automation in the IT-BPO industry are expected to impact the traditional voice-based call centre segment of the company in the long-term. ICRA notes the company's investment in interactive voice response (IVR) and chat bots, to shift toward a digitally-enabled business model. ICRA also notes the high geographical concentration risk with

ConneQt deriving nearly 96% of its standalone revenue from India in FY2023. While the same was ~87% on a consolidated basis in FY2023, it remains high.

## Key rating drivers and their description

### Credit strengths

**Established track record in IT-BPO segment** – ConneQt has a proven operational track record in the IT-BPO industry with an experience of more than 15 years. Extensive presence in the domestic market and long-term associations with its key customers have enabled steady growth in the company's revenues. Further, ConneQt has expanded its business with the addition of new reputed clients every year. The acquisition of majority stake in ATL, which has been in the IT-BPO industry for over two decades and provides Digital Business Services and Human Resource Operation services, has strengthened the company's position.

**Diversified operational profile and sectoral exposure** – ConneQt, through its customer lifecycle management and collections and business process management division, caters to client requirements in diverse sectors such as media, telecom, banking, and financial services, auto, manufacturing, etc. Further, the acquisition of ATL in FY2020, allowed the company to enter in the human resource operations segment as well and diversify its operating profile.

**Strong parentage by virtue of being a wholly-owned subsidiary of QCL** – QCL, which holds a 100% stake in the company, provides it with cross-selling opportunities with QCL's existing clients. This provides ConneQt with the incremental opportunity to diversify its client base and support its revenue growth. In April 2021, QCL increased its stake in the company to 100%. The acquisition of ATL, through financial support from QCL, allowed Conneqt to diversify its operations and client base.

**Strong financial risk profile** – ConneQt's financial risk profile remains strong with a healthy capital structure characterised by minimal external gearing and robust coverage indicators as on March 31, 2023. TD/TNW, TD/OPBDITA and interest coverage ratio stood at 0.5 times, 1.0 times and 9.1 times, respectively, as on March 31, 2023, compared to 0.4 times, 0.8 times and 15.8 times, respectively, as on March 31, 2022. The debt metrics moderated a bit on account of lease additions by the company, to expand its call centre facilities, leading to higher lease liability and interest cost. However, excluding the lease liabilities, both the gearing and TD/OPBDITA ratios remained at 0.002 and 0.006 times, respectively, as of March 31, 2023, on account of very minimal external debt. Further, the healthy cash reserves of Rs. 133.4 crore on a standalone basis and Rs. 270.3 crore on a consolidated basis as on March 31, 2023, provide additional cushion.

### Credit challenges

**Risks pertaining to IT-BPO operations** – Continual wage increases, high attrition rates and costs associated with hiring, training, and retaining talent affect the company's profitability, as employee costs constitute the key cost for its business.

**Geographical concentration risk** – The company derives nearly 96% of its revenue from India on a standalone basis, exposing it to high geographical concentration risk. The acquisition of a majority stake in ATL, which has delivery centres in USA and the Philippines, has allowed the company to venture more into international markets and enhance its geographic diversification. That said, at the consolidated level, India contributed ~87% to the top line in FY2023.

**Risk associated with automation/digitisation of voice-based IT-BPO services** – The company faces the risk of digitisation and automation on its traditional voice-based call centre segment. ICRA notes the company's investment in interactive voice response (IVR) and chat bots. The company is also working on robotic automation and artificial intelligence, where part of the company's business is digitally enabled as of now with plans to increase it further, going forward.

## Liquidity position: Strong

Conneqt's liquidity position is strong, with cash reserve of Rs. 133.4 crore and an undrawn working capital facility of Rs. 75.4 crore against sanctioned limit of Rs. 80.0 crore as on March 31, 2023, on a standalone basis. On a consolidated basis, the cash and liquid investments stood at Rs. 270.3 crore as on March 31, 2023. ConneQt is expected to incur capex of ~Rs. 35-40 crore at the consolidated level (excl. lease addition) towards investment in technology and IT infrastructure during the current year, funded by the internal accruals. The company has a total external debt repayment of Rs. 1.7 crore during the next two years, which can be comfortably funded through internal accruals.

## Rating sensitivities

**Positive factors –** ICRA could upgrade Conneqt's rating, if the company demonstrates significant growth in its revenues and margins in addition to maintaining its strong debt coverage metrics, on a sustained basis. Further, an improvement in the credit profile of the parent, QCL, will be key for an upward rating action of the company. The ratings watch will be concluded once greater clarity emerges on the ongoing merger/demerger process.

**Negative factors –** Pressure on Conneqt's ratings could arise, if there is a decline in the margins or a stretch in the working capital intensity, leading to a deterioration in the liquidity position. Further, a deterioration in the credit profile of the parent, QCL, will lead to a review of the company's ratings. The ratings watch will be concluded once greater clarity emerges on the ongoing merger/demerger process.

## Analytical Approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology<br>Rating Approach –Consolidation<br>Rating Approach – Implicit Parent or Group Support<br>Rating Methodology -Information Technology (Services) |
| **Parent/Group support** | Parent Company: Quess Corp Limited<br>The ratings factor in the implicit support from the parent. |
| **Consolidation/Standalone** | The ratings are based on the consolidated financial statements of the rated entity. |

## About the company

ConneQt Business Solutions Limited (erstwhile Tata Business Support Services Limited) was incorporated in 2004 as a wholly-owned subsidiary of Tata Sons Private Limited (rated [ICRA]AAA (Stable)/[ICRA]A1+) to cater to the domestic ITeS-BPO industry. The company commenced operations from FY2005 as E2E Serwiz Solutions Private Limited and rechristened itself as Tata Business Support Services Limited in FY2008. It provides voice-based business process services, including inbound and outbound interactions, email interactions, chats and collaborative web sessions and mainly caters to clients in sectors such as telecom, media, manufacturing, retail, e-commerce, and healthcare, etc. With effect from April 1, 2014, the operations of E Nxt Financials Limited (a Tata Group enterprise in the business of fulfilment and business process management; earlier rated [ICRA]A1 but withdrawn in January 2016) were merged with ConneQt as per a court order received in May 2015.

In November 2017, a 51% stake in ConneQt was acquired by Quess Corp Limited, which offers end-to-end business functions like recruitment, temporary staffing, technology staffing, IT products and solutions, skill development, payroll, compliance management, integrated facility management and industrial asset management services to corporate companies operating across sectors. In FY2020, QCL increased its stake in ConneQt to 70% to fund the acquisition of Allsec Technologies Limited, which operates in two business segments, namely human resource operations and customer lifecycle management. In April 2022, QCL acquired the remaining 30% stake in ConneQt from Tata Sons Private Limited, making it a wholly-owned subsidiary of QCL.

## Key financial indicators (Audited)

| ConneQt Consolidated* | FY2022 | FY2023 |
|---|---|---|
| **Operating income** | 1457.4 | 1816.5 |
| **PAT** | 116.8 | 115.6 |
| **OPBDIT/OI** | 18.8% | 17.3% |
| **PAT/OI** | 8.0% | 6.4% |
| **Total outside liabilities/Tangible net worth (times)** | 0.7 | 0.8 |
| **Total debt/OPBDIT (times)** | 0.8 | 1.0 |
| **Interest coverage (times)** | 15.8 | 9.1 |

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Total debt includes lease liability.*

** ICRA has taken a consolidated view of the parent (ConneQt), its subsidiaries and associates while assigning the ratings*

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating History for Past Three Years

| | Instrument | Current rating (FY2024) | | | | | Chronology of rating history for the past 3 years | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Type | Amount rated (Rs. crore) | Amount outstanding as of March 31, 2023 (Rs. crore) | Date & rating in FY2024 | | Date & rating in FY2023 | | | Date & rating in FY2022 | Date & rating in FY2021 |
| | | | | | July 11, 2023 | June 28, 2023 | Jan 03, 2023 | June 28, 2022 | May 24, 2022 | May 31, 2021 | - |
| 1 | Fund-based limits | Long Term | 80.0 | 0.0 | [ICRA]A+& | [ICRA]A+& | [ICRA]A+& | [ICRA]A+& | [ICRA]A+ (Stable) | [ICRA]A+ (Stable) | - |
| 2 | Fund-based/ Non-fund based limits | Long Term/ Short Term | - | - | - | - | - | - | [ICRA]A+ (Stable)/ [ICRA]A1+ | [ICRA]A+ (Stable)/ [ICRA]A1+ | - |
| 3 | Non-fund based limits | Long Term/ Short Term | 92.0 | 41.0 | [ICRA]A+&/ [ICRA]A1+& | [ICRA]A+&/ [ICRA]A1+& | [ICRA]A+& / [ICRA]A1+ & | [ICRA]A+&/ [ICRA]A1+& | [ICRA]A+ (Stable)/ [ICRA]A1+ | [ICRA]A+ (Stable)/ [ICRA]A1+ | - |
| 4 | Commercial Paper* | Short Term | - | - | - | [ICRA]A1+&; Withdrawn | [ICRA]A1+ & | [ICRA]A1+& | [ICRA]A1+; withdrawn | [ICRA]A1+ | - |

**Commercial paper carved out of existing working capital limits; &: Rating Watch with Developing Implications*

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| Long term – Fund-based working capital | Simple |
| Long term/Short term – Non-fund based working capital | Very Simple |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

## Annexure-I: Instrument details

| ISIN | Instrument Name | Date of Issuance | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| **NA** | **Fund-based limits** | NA | NA | NA | 80.0 | [ICRA]A+; Rating Watch with Developing Implications |
| **NA** | **Non-fund based limits** | NA | NA | NA | 92.0 | [ICRA]A+; Rating Watch with Developing Implications/ [ICRA]A1+; Rating Watch with Developing Implications |

***Source:*** *Company*

*Please click here to view details of lender-wise facilities rated by ICRA*

## Annexure-II: List of entities considered for consolidated analysis

| Company Name | Ownership | Consolidation Approach |
|---|---|---|
| Allsec Technologies Limited | 73.39% | Full Consolidation |
| Allsec Inc., USA | 73.39% | Full Consolidation |
| Allsectech Manila Inc., Philippines | 73.39% | Full Consolidation |

***Source:*** *Company*

***Note:*** *ICRA has taken a consolidated view of the parent (ConneQt), its subsidiaries and associates while assigning the ratings*

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